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REPORT OF THE UNITED NATIONS BOARD OF AUDITORS ON THE FINANCIAL STATEMENTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE YEAR ENDED 31 DECEMBER 2001[a/]

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a/ An annex contains follow-up actions by the Administration to implement the Board's recommendations for 2001, as well as the comments of the Board.

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CHAPTER I

REPORT OF THE BOARD OF AUDITORS

Summary

The Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period from 1 January to 31 December 2001. The Board has also reviewed the operations of the voluntary funds administered by the High Commissioner at the headquarters of the Office of the United Nations High Commissioner for Refugees (UNHCR) at Geneva and at offices in Bosnia-Herzegovina, the Democratic Republic of the Congo and the United Republic of Tanzania for the same period.

The Board's main findings are as follows:

(a) The unliquidated obligations reported in the financial statements ($74 million) are not recorded in the UNHCR general ledger, but are equal to the difference between spending authorizations and disbursement; as a consequence, in this regard, the financial statements present only an estimation of the UNHCR expenditure for the year, instead of reflecting the actual expenditure;

(b) From June 2001 to June 2002, UNHCR succeeded in reducing by $43.9 million the expenditure not yet justified by implementing partners' financial reports; as at 21 June 2002 a total of $4.3 million expenditure relating to the years 1994 to 2000, and $7.5 million relating to the year 2001, remained without such financial reports;

(c) One country has continued to deny UNHCR access to accounting records of implementing partners with expenditures totalling $4.1 million in 2001;

(d) Within the $204.7 million 2000 expenditure covered by audit certificates received at the end of March 2002, the Board reviewed $124 million and found that audit certificates for $106 million (86 per cent) lacked reference to the implementing partner financial report, of which $91.5 million pertained to implementing partners not required to present them under UNHCR rules. Another $27.6 million had no clear certification that funds had been used in accordance with the project agreements;

(e) As an overall result, UNHCR has insufficient assurance that the funds are properly used, even after enough time has elapsed for submission of the certificates;

(f) Contrary to the UNHCR Statute, the United Nations Regular Budget does not fund most of UNHCR administrative expenditure: in 2001 it has funded only 37 per cent of the management and administration costs, or 8 per cent when including programme support costs;

(g) Available reserves at the end of 2001 ($92.4 million) were as in other United Nations entities far from being sufficient to cover the staff termination liabilities estimated at some $228 million;

(h) Pledges for contributions made in currencies other than the United States dollar are recorded at the United Nations exchange rate at the time of recording the pledge, but UNHCR does not hedge against the related exchange rate risks; as a consequence, currency exchange losses on pledges recorded in the 2001 financial statements amounted to $12.4 million;

(i) The current UNHCR information system, which is different from the United Nations, IMIS core system, is not an integrated system. The configuration and the number of applications leave the system open to a considerable risk of errors. Because of an expected change to a new system, there have been few upgrades, and the gap between the current system and functional requirements has widened;

(j) The introduction of a new system, however, has been delayed. In June 2001, UNHCR put a new Integrated System Project (ISP) on hold, considering rightfully that it failed to comply with best practices for project management, as highlighted by the Board in its last report. As of May 2002, a final decision was still pending, but ISP expenditure already amounted to some $13 million - 38 per cent of the initial budget - with no operational result.

While acknowledging the valuable progress made by UNHCR in monitoring its implementing partners, the Board made recommendations, principally to improve the accounting for expenditure, the audit certificate procedures, the cash management, and the reliability of the information systems. It has noted that in most respects UNHCR has actively responded to recommendations, although some have yet to be implemented.

A list of the Board's main recommendations is included in paragraph 13 of the present report.

A. Introduction

1. In accordance with paragraph 22 of the statute of the Office of the United Nations High Commissioner for Refugees (UNHCR), the Board of Auditors has audited the financial statements of the voluntary funds administered by the High Commissioner for the period from 1 January to 31 December 2001.

2. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those auditing standards require that the Board plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January to 31 December 2001 had been incurred for the purposes approved by the Executive Committee of UNHCR; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the voluntary funds administered by the High Commissioner for Refugees presented fairly the financial position as at 31 December 2001. The audit included a general review of financial systems and internal controls and a test

examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

4. The audit was carried out at the UNHCR headquarters at Geneva and at its offices in Bosnia-Herzegovina, the United Republic of Tanzania and the Democratic Republic of the Congo.

5. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. In 2001, the Board reviewed in particular cash management and the financial information systems.

6. The Board continued its practice of reporting the results of specific audits through management letters containing audit findings and recommendations to the Administration. The practice allowed an ongoing dialogue with the Administration on issues arising from the audit.

7. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the present report were communicated to UNHCR. The Administration confirmed the facts on which the Board's observations and conclusions were based and provided explanations and answers to the Board's queries. The report is divided into two parts, covering the audit of financial issues and management issues, respectively.

8. The Board's main recommendations are reported in paragraph 13 below. The detailed findings are discussed in paragraphs 18 to 101.

1. Previous recommendations not fully implemented

9. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below those recommendations that have not been fully implemented.

10. Two major recommendations made by the Board between 1995 and 1999 have yet to be implemented. The Board recommended that the Administration:

(a) Make the preparation of work plans an integral part of the project-planning and monitoring process (1995, 1996, 1998 and 1999);

(b) Ensure complete and accurate disclosure of non-expendable property and conduct physical stock checks on a regular basis (1996, 1997, 1998 and 1999).

11. On the first recommendation, the Board noted that the production of a Guide for Use of Work Plans when preparing projects and sub-projects has not been finalized within the initially foreseen timeframe, as UNHCR faced staffing and operational problems. However, a first draft of a mini-Guide has been circulated for review and comments of staff. With regard to the second recommendation, the Board noted that the value of non-expendable property was still understated in the 2001 financial statements, at $252.4 million for the acquisition value and $43.5 million for the depreciated value. As highlighted in January 2002 by the Office of Internal Oversight Services (OIOS), some 1,500 headquarters items were not recorded,

assets in the custody of implementing partners were not fully accounted for, and some 4,000 items were recorded at a default value understating the current value by some $4.8 million. The last physical inventory of headquarters assets was started in 1999 but never completed. UNHCR is committed to reduce the default values in its asset management system to its minimum, by the end of 2002. The Board encourages UNHCR to improve the overall situation.

12. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board has also reviewed the measures taken by the Administration to implement the recommendations made by the Board in its report for the year ended 31 December 2000. Details of action taken and the comments of the Board are outlined in the annex to the present report.

2. Main recommendations

13. The Board recommends that UNHCR:

United Nations System Accounting standards

(a) Modify its accounting policy and financial system on expenditure in order to comply with United Nations System Accounting Standards through an accurate accounting of disbursements and valid unliquidated obligations (para. 38);

Implementing partner expenditure

(b) Assess the feasibility and cost-effectiveness of modifying the rules on the control of implementing partners expenditure, with a view to obtaining audit certificates covering the financial reports submitted by the international NGOs and Governmental partners; monitor corrective action taken by Field Offices in case of audit certificates with qualification or major findings and document the follow-up; consider the establishment of a comprehensive database on local audit resources history and results to facilitate audit monitoring and risk-assessment (para. 63 and 73);

Cash management

(c) Manage exchange rate risks by adopting a more proactive, hedging stance (para. 78);

(d) Set and regularly update a comprehensive database in respect of bank services, based on written agreements, and launch a competitive bidding for all headquarters bank accounts in order to obtain the best condition and services (para. 80);

Information systems

(d) Address the current functionality deficiencies and define a clear development strategy needs for its Financial Management Information System (FMIS), factoring in the technological delays that have built up with FMIS developments over the last few years, and the decisions that will be taken to restart the ISP or a similar project and its provisional roll-out date. The Board further recommends that, as long as FMIS produces the accounts, a risk estimation procedure be implemented (para. 88);

(e) Consult with the United Nations Secretariat and other relevant United Nations entities to ensure that in terms of cost-benefit the present diversity of information systems approaches is in the best interest of Member States and of the beneficiaries of United Nations programmes; ascertain that there are no ready-made solutions, even at the cost of alterations in current UNHCR procedures, preferably within the United Nations system (para. 100).

14. The Board's other recommendations are presented in paragraphs 21, 29, 31, 41, 53, 56, 66, 68, 71, 82, 84, 90, 94.

3. Follow-up on special requests from the General Assembly and the Advisory Committee on Administrative and Budgetary Questions

15. The General Assembly, in its resolution 56/233 of 24 December 2001, reiterated its position that a biennial audit would give UNHCR more time to implement the recommendations of the Board and would also facilitate the timely submission of audit certificates by implementing partners. UNHCR has indicated that it "is not planning to move to a biennium cycle. The main reason for that position being the specific nature of UNHCR's work and its related planning and funding aspects".

16. While noting the UNHCR position, the Board has examined with UNHCR the legal and technical elements of the issue, in order to provide further data to the General Assembly.

(a) Changes toward a biennial audit would require minor legal modifications in the UNHCR Statutes and Financial Rules. The General Assembly would have to modify the timing pattern of its review of the arrangements for the Office of the High Commissioner. The General Assembly determines periodically whether the Office should be continued: this has been done so far on a five-year basis, and lastly for a period extending to 31 December 2003. To ensure consistency with UNHCR accounts and Board biennial reports, it should be done on the base of a multiple of two years, beginning on 1 January 2004. The Financial rules of UNHCR, which specify annual audits, would have to be likewise modified.

(b) More materially, such a change would require prior alterations in UNHCR information system. The Board, mindful of the costs and perils of software customization, considers that it might be costly and inefficient to request UNHCR to modify its present data-processing system, soon to be replaced, but that an estimate would be desirable of the cost of the adaptation of its next system to a biennial audit cycle. The Board also notes that, if the cost is limited, such an eventuality should be provided for.

(c) A biennial audit would be consistent with the overall United Nations audit cycle. However, UNHCR's uniqueness such as its management and reporting cycle have to be taken into account.

17. The Board recommends that (i) should the General Assembly wish to pursue the matter, it should request UNHCR to perform a detailed review and cost-estimate of the modifications implied by a biennial cycle; (ii) UNHCR should, regardless of the outcome, examine the cost of taking into account in its new information system the possibility of biennial cycles."

B. Financial issues

1. Financial position

18. The UNHCR financial statements relate to the voluntary funds administered by the High Commissioner for the period from 1 January to 31 December 2001. Apart from these voluntary funds, UNHCR receives funding from the United Nations Regular Budget. The relating assessed contributions are disclosed for information in Schedule 1 to the UNHCR financial statements and they are reported in the United Nations General Fund Financial Statements (volume I).

19. UNHCR relies almost entirely on income from voluntary contributions, which amounted to $779 million in 2001 while Regular Budget resources totalled $20 million (2.5 per cent of voluntary contributions). According to the Statute, the "*administrative expenditure relating to the functioning of the Office of the High Commissioner shall be borne on the budget of the United Nations*". "Administrative" is commonly understood as opposed to "operational". It refers to categories of costs as defined in note 5 of the financial statements, and covers therefore either (a) in a restrictive meaning, the "management and administration costs" relating to headquarters, or (b) when construed in a more extensive meaning, "programme support costs", i.e. of a technical, logistical or administrative nature, both at headquarters and in field offices.

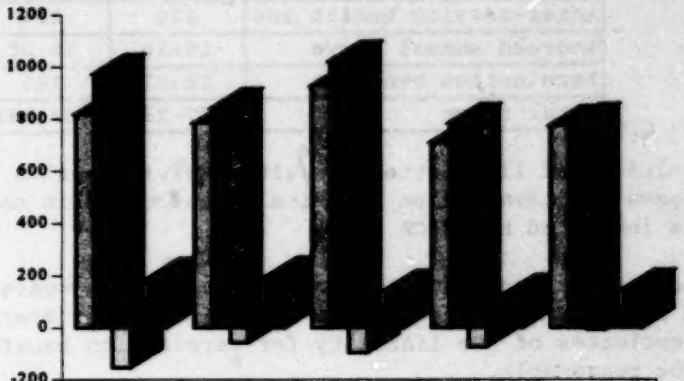
20. Contrary to the UNHCR Statute, the United Nations funded in 2001 only 37 per cent of the management and administration costs, or 8 per cent when including programme support costs. In its resolutions 52/220 and 54/249, the General Assembly requested the Secretary-General to review the funding of the Office of the High Commissioner for Refugees from the regular budget above the current proposed level. UNHCR indicated that the United Nations Secretariat has agreed in principle to phased increases over the three coming biennia, and that the proposal was being discussed by the competent bodies of the General Assembly.

21. **The Board recommends that: (i) UNHCR formally state the scope of "administrative expenditure"; (ii) the UNHCR statute be eventually amended should the planned phased increases from the United Nations Regular budget not be sufficient to fund UNHCR administrative expenditure.**

Overall financial position

22. The following graph and table 1 reflects the financial position over the past five years and the level of reserves compared to the longer term liabilities disclosed in note 13 of the financial statements.

Table 1. Financial position 1997-2001
(in millions of United States dollars)



	1997	1998	1999	2000	2001
Income from all voluntary sources	820	784	927	710	775
Expenditure	974	842	1023	784	783
Shortfall of income over expenditure	-154	-58	-96	-74	-8
Prior year adjustments	76	63	45	57	29
Reserve and fund balances,end of year	191	196	145	128	149

23. Over the period, income has declined from $820 million to $775 million (6 per cent), and expenditure from $974 million to $783 million (24 per cent). Although shortfalls of income over expenditure were partly covered by prior year adjustments, UNHCR reserves have been drawn upon to meet shortfalls, and have been reduced from $191 million to $149 million (28 per cent) over five years.

24. However, the trend has been reversed in 2001. The shortfall of income over expenditure has been reduced. This is partially due to the restriction of 2001 expenditure by the new High Commissioner at the level of expected income, notwithstanding the Board's finding on unliquidated obligation accounting as mentioned below. Also, total reserves increased by $20 million following an increase of $42 million of the Supplementary Programmes fund reserves.

25. As regards the liquidity position, UNHCR has maintained its assets to liabilities ratio at 2.4:1, with assets of $255 million and liabilities of $106 million (compared with $217 million of assets and $89 million of liabilities at the end of 2000.

Table 2. Liabilities for end-of-service and post retirement benefits
(in millions United States dollars)

	1999	2000	2001
After-service health ins	230	260	91
Accrued annual leave	25-30	18-20	19-21
Termination benefits	22-27	105	116
Total range	277-287	383-385	226-228

26. Evolution of liabilities for after-service health insurance, accrued annual leave and termination benefits is reflected in table 2, with the spread as indicated by UNHCR.

27. The termination benefits liabilities have increased fivefold between 1999 and 2000. As mentioned in its last report, the Board examined the revised estimates of the liability for termination benefits and considered them to be reasonable.

28. The after-service health insurance liabilities have decreased by a factor of three between 2000 and 2001, after consulting an actuary. The actuarial study was based on 5,046 active staff and 323 retirees as of 1 January 2000, when figures at the end of 2001 would have been more accurate - and would have changed the liability amount (5,208 active staff as at 1 January 2002). There is a significant discrepancy between the number of active staff used for estimating After-Service Health Insurance liabilities (5,046 staff members) and the number used for annual leave and termination benefits estimates (5,881), mostly due to 700 additional staff members recently recruited in Afghanistan and not yet recorded in the UNHCR personnel database.

29. **The Board recommended, and UNHCR agreed, to adopt a consistent policy with regard to the number of staff members to be taken into account for calculation of termination liabilities.**

30. Reserves and fund balances held by UNHCR at the end of 2001 amounted to $148.9 million, out of which $56.5 million was earmarked for specific purposes ($12.4 million for the Medical Insurance Plan, $6.1 million for the Junior Professional Officers Fund and $38 million for the Working Capital and Guarantee Fund). Available, non-earmarked reserves ($92.4) are far from being sufficient to cover the staff termination liabilities as estimated in note 12 (some $228 million as reported above), which is a matter of great concern. UNHCR is aware of the unfunded liabilities, which is a United Nations system-wide problem currently under review.

31. **The Board recommends that UNHCR, in conjunction with United Nations Headquarters, review the funding mechanism and targets for end-of-service liabilities in line with other United Nations organizations.**

2. United Nations System Accounting Standards

32. The Board assessed the extent to which the UNHCR financial statements for the year ended 31 December 2001 conformed to the United Nations System Accounting Standards (UNSAS). Further to the Board's audit, UNHCR has made four major adjustments so that they be generally consistent with the UNSAS.

Those adjustments relate to pledges receivable, a transfer from the Junior Professional Fund to the Annual Programme Fund of fees for administrative management ($2.75 million), a reduction in income of the Medical Insurance Plan (by $1.36 million), disclosure of ex-gratia payments (increased by $838,391). Assets as at 31 December 2001 have accordingly been reduced from an initial $257 million to $255 million and the 2001 Fund balance has been reduced by the same amount. In addition, further to the Board's requests, notes to the financial statements now provide additional details on the accounting of in-kind contributions, and the accounting change regarding Medical Insurance Plan premiums. After these adjustments, the main outstanding problem relates to the accounting for expenditure as explained below.

33. As expenditure, UNHCR charged the amount of allocations provided through "Letters of Instructions" (LOI), which are internal spending authorizations for administrative and operational projects. At the end of a fiscal year, the difference between the LOI amounts and the disbursements made in the year is deemed equal to unliquidated obligations (ULO) and reported as such in the financial statements, regardless whether or not such ULO represent actual commitments. In other words, the expenditure amount reported in the financial statements represents not only disbursements and valid ULOs (funds committed through a purchase order, a contract or an agreement with an implementing partner), in compliance with UNSAS, but also the remaining balance, neither disbursed nor committed, under the concept of "unliquidated balances". In the absence of an audit trail, these are invalid figures.

34. Therefore note 2 (c) of the financial statements states that: "*estimates are used in the context of expenditure recognition … at the end of the financial period to determine the amounts to be retained in respect of unliquidated obligations*", except that these are not really "estimates", but simply the difference between the budget as reflected in the obligated amounts, revised if need be at year-end, and the disbursements.

35. The actual unliquidated obligations, as opposed to the ULO resulting from the mere difference between budget authorizations and disbursements, are backed by several reports issued from different systems or sources: ULO relating to purchase orders and contracts managed by headquarters are recorded and detailed in a report issued by a specific procurement information system (and not in Financial and Management Information System (FMIS) general ledger); ULO relating to travel and staff are recorded and detailed in a FMIS report (but again not in FMIS General Ledger). Also, $37.8 million of Field ULOs are not recorded in any financial system and are only backed by a manual compilation of information provided by the country offices. Such information would often not substantiate obligations in compliance with UNSAS.

36. At year-end, there are unavoidable differences between the ULO amount reported in the financial statements and the amount of actual unliquidated obligations resulting from the above quoted reports. Overall, in 2001, ULO reported in the financial statements was $74 million while ULO amount backed by "reports" was $71 million, of which, as stated above, $37.8 million in Field ULOs were often not properly documented.

37. UNHCR agreed with the Board's analysis and concurs that expenditure should be more properly accounted for. However, it explained that changing the current accounting policy and accounting for ULOs in the General Ledger would imply in-depth modifications of its current Financial and Management Information System. UNHCR is committed to achieve compliance with normal accounting practices when its new accounting software is implemented, at a date which by May 2002 was still to be set, and likely not before 2004.

38. The Board, emphasizing the importance of compliance with UNSAS and taking into account the commitment of UNHCR to attain it through a prompt implementation of a new Information System, recommends that UNHCR modify its accounting policy and financial system to achieve an accurate accounting of disbursements and valid unliquidated obligations.

3. Write-off of losses of cash, receivable and property

39. UNHCR wrote off cash and accounts receivable amounting to $67,214 during the year, in accordance with United Nations financial regulation 10.4. With regard to non-expendable property and other categories of losses, the amounts written off during 2001 were reported to the Board as follows:

Table 3. Write-off of losses of property

Reason for loss	In United States dollars
Accident	50,583
Hijacking	31,660
Theft	399,208
Looting	80,164
Loss of property	2,696
Damaged/destroyed	14,199
Wear and tear	2,823
Total	**581,333**

40. UNHCR provided the Board with explanations for all the losses and write-offs, and the Board is satisfied that appropriate action has been taken in the circumstances. However, refunds due are recognized only when the money is received; this does not allow for the best monitoring of amounts to be recovered.

41. The Board recommends that, whenever a party is held responsible for losses of cash, receivable and property and asked to refund the Organization, UNHCR promptly record the related amounts on an accrual basis to improve control and accountability.

4. Ex-gratia payments

42. At the Board's suggestion, UNHCR has disclosed in note 5 (b) to the financial statements an ex-gratia payment for the transfer of $856,127, coming from a national committee, in favour of a private charity. This charity, recently created under Swiss law with a former High Commissioner as founding president, aims to promote post-primary education for refugee children. In addition, the Board has noted that the Swiss foundation benefits from other UNHCR advantages, estimated for 2001 at $250,000, for office space and support staff, as now disclosed in the note

mentioned above. UNHCR has agreed to sign a service agreement with the Swiss foundation, and has indicated that it plans to terminate such services at the end of 2002.

43. The High Commissioner approved $1,344,000 (of which $838,391 was disbursed in 2001 and $500,000 in May 2002) in ex-gratia compensation to the families of three staff members who died in service in 2000.

C. Management issues

1. Implementing partner expenditure

Controls in place

44. United Nations agencies frequently entrust their operational projects to national entities as "implementing partners" under the "National Execution and Implementation Arrangements" guidelines. UNHCR generally relies on non-governmental partners, to implement projects; it undertakes direct implementation only "under exceptional circumstances". UNHCR indicated that $283.1 million out of $431.4 million (65.6 per cent) of operational expenditure was accordingly implemented by Governmental or non-governmental partners, according to data available as of 15 April 2002. The proportion was 69.1 per cent in 2000 ($311.1 million out of $450.4 million). The figure of $551 million in programme expenditure provided in the financial statements includes emergency projects of $54 million, care and maintenance projects of $193 million, repatriation projects of $91 million, local settlements projects of $89 million and resettlement projects of $5 million, and protection, monitoring and coordination projects of $119 million.

45. Guidance to and monitoring of implementing partners is therefore of paramount importance and is achieved through the following procedures:

(a) UNHCR transfers responsibilities such as procurement, recruitment, accounting and reporting to its implementing partners. It controls the expenditure through their quarterly "Sub-Project Monitoring Reports" (SPMRs) submitted to the concerned Field Office, which verifies the financial data, supporting documentation and monthly bank statements of the partner before forwarding the report to UNHCR headquarters. SPMRs are therefore the main monitoring tool;

(b) As a second step, following a Board of Auditors' recommendation, implementing partners have been requested since 1997 to submit external "audit certificates" obtained from local external auditors;

(c) Internal audits are carried out by the Office of Internal Oversight Services (OIOS) in the Field with the objective, *inter alia*, of determining whether implementing partners' accounting and internal control systems ensure completeness and accuracy of financial information submitted to UNHCR.

Control of implementing partner expenditure through the sub-project monitoring reports

46. As mentioned by the Board in its previous reports, UNHCR signs with its implementing partners sub-project agreements setting out the budget and a

plan of cash advances that UNHCR will make to the partner. Actual advances depend on the progress achieved and the level of expenditures reported by the partner in the sub-project monitoring report. UNHCR controls advances to the implementing partners through a project expenditure control (X21) account that is cleared once the sub-project monitoring report has been verified by the field office.

47. The Board qualified its audit opinion on the 2000 financial statements (A/56/5/Add.5) based on a limitation of scope in respect of a total of $43.5 million of implementing partner expenditure due to absence or deficiencies of sub-project monitoring reports. The amount was categorized as follows:

(a) $8.5 million represented payments made to implementing partners in 2000, but for which headquarters had not received by June 2001 appropriately approved sub-project monitoring reports;

(b) $3 million represented implementing partners' expenditure that UNHCR could not check due to the fact that the country in which expenses were incurred denied UNHCR access to accounting records of governmental implementing partners;

(c) $18 million represented sub-project monitoring reports for which the Board identified, during its field missions, serious inadequacies in their verification and validation by UNHCR staff;

(d) $14 million represented sub-project monitoring reports reviewed at headquarters and for which the Board found that staff in charge of verifying the sub-project monitoring report had provided limited assurance.

48. The situation for the 2001 financial statements is discussed below. As the qualified opinion was due to SPMR issues, the Board has paid special attention in assessing to what extent UNHCR has improved its system of accountability in this respect.

49. Regarding expenditure not yet justified by SPMR, in its last report the Board highlighted the considerable effort, which allowed UNHCR to reduce by some $186.5 million the total X21 balances involved. However, the Board noted that, at the end of June 2001, the X21 control account recorded uncleared advances to implementing partners totalling $55.5 million for the years 1994 to 2000. The Advisory Committee on Administrative and Budgetary Questions, having noted the progress achieved by UNHCR, trusted that further efforts would be made by UNHCR with regard to the $55.5 million outstanding advances to implementing partners (A/56/436 (para. 4)).

50. As a result, in comparison with the above $55.5 million balance for 2000, the Board is pleased to note that efforts during 2001 have led to a further reduction of payments made prior to 2001 and not yet justified by SPMRs. Consequently, as of 21 June 2002, the outstanding payments made between 1994 and 2000 amounted to $4.3 million. **The Board further encourages UNHCR to continue its efforts to obtain missing SPMRs.**

51. As regards payments made to implementing partners in 2001 and reported as expenditure in the 2001 financial statements, $7.5 million was still not justified as at 21 June 2002.

52. As regards the case of denial by one Member State of access to accounts, noted in reports by the Board of Auditors and OIOS, the Advisory Committee on Administrative and Budgetary Questions stated "*that the issue of denial of access to the accounting records of implementing partners, on which the Committee had commented in previous reports (see, for example A/53/513, paras. 95 and 96), continues to be a very serious problem with a potential for fraud. The problem should be thoroughly examined by the administration of UNHCR in order to determine whether the failure to provide access to accounting records is due to the lack of capacity of implementing partners or rather reflects the lack of will to cooperate with UNHCR. Should the latter be the case, the Committee requests that the issue be addressed at the highest level of UNHCR administration and, if necessary, be brought to the attention of the Secretary-General*" (A/56/436, para. 6). UNHCR has insistently tried in 2001 to access the original documents supporting the use by the Member State of the 2001 funds which amounted to $4.1 million. However, the Administration indicated that further to a field mission carried out in June 2002, the Governmental partners have given assurance that their accounts would be open.

53. **The Board recommends that UNHCR verify without further delays the expenditure reported by the Governmental partners.**

54. As regards the effectiveness of checks performed by the Field Officers on the SPMRs, the Board is pleased to report on improvements noted during its field visits: regular financial monitoring visits are made to assess the reliability of implementing partners' accounting, budgetary and internal control systems, in order to obtain reasonable assurance that the figures reported are complete and accurate. Programme Officers still report numerous issues, which they are increasingly monitoring, such as:

(a) Lack of expertise from non-governmental organizations - insufficient knowledge of or compliance with UNHCR procedures;

(b) Difficulties in reconciling Implementing Partners accounts and incompatibility between the accounting system of UNHCR and of the non-governmental organizations;

(c) Difficulties in verifying expenditures for non-governmental organizations international staff and overhead costs (difficulty in accessing supportive documents), and lack of supporting documentation;

(d) Late submission of SPMRs, mistakes in the contents, and attempts to manipulate cost figures;

(e) Non-authorized budget adjustments. Cancellation of activities without consulting UNHCR;

(f) Incorrectness of currency implementation (United States dollars instead of local currency) / impossibility to track some disbursements due to exchange rate variations;

(g) No separate bank accounts. Substantial number of disbursements in cash;

(h) Payments by the implementing partners for services / goods disbursed in advance;

(i) Difficulties in getting the unspent balances from the implementing partners. Non-refund of miscellaneous income;

(j) Absence of narrative report; failure to achieve an objective.

55. For 70 per cent of $48 million expenditure of a sample of 24 SPMRs that the Board reviewed at UNHCR headquarters, a reasonable assurance was provided by the monitoring of the amount reviewed. The remaining 30 per cent ($14.6 million) was either not properly signed by the authorized UNHCR staff or the two officers required by UNHCR regulations, or the figures were altered and crossed out. In this respect, the Board welcomed the new SPMR format, issued in April 2002, to the extent that it is likely to improve the accountability of both the implementing partners and UNHCR. It clearly states the meaning of the certification made by the partner (certifying that the SPMR information is based on its accounts and reflects the financial situation of the project and that funds have been used in accordance with the project agreement) and the extent of the verification carried out by UNHCR (completeness, accuracy and compliance with the agreement).

56. The Board encourages UNHCR to continue its efforts in verifying SPMRs effectively.*Control of implementing partner expenditure through audit certificates*

57. The Board examined both rules and practices with a view to assessing whether: (i) the rules were relevant vis-à-vis their purpose as defined in UNHCR Manual, i.e. to ensure that "the funds provided by UNHCR have been used for the purpose and intent, and in accordance with, the budgetary provisions of the agreement signed between UNHCR and the implementing partner"; (ii) the certificates were issued in a timely manner and followed-up in such a way that action can be taken when necessary.

58. To carry out its review, the Board focused on audit certificates related to 2000 expenditure entrusted to International NGOs ($148 million), Governments, ($76.6 million) and local NGOs ($68.7 million). The focus is not on the latest, 2001 expenditure, since the deadline for their submission is six months after liquidation date of the project or after the International NGOs fiscal year, i.e. after the present report was to be issued. Out of the 621 audit certificates received as at 25 March 2002, the Board reviewed 375 certificates totalling $123.8 million (42 per cent of the 2000 operational expenditure executed by NGOs and Governments).

59. Audit certificates are to provide UNHCR with the assurance that expenditure has been incurred for the purpose of the project. Since expenditure is reported in the sub-project monitoring reports, this financial report should be the one audited. Yet, this is so far the case only for national NGOs. For this category, auditors have had to audit the SPMR itself since 1998 and to produce a management letter since fiscal year 2001. However, despite the latest UNHCR efforts, compliance remains quite unsatisfactory, since for 85 per cent of the expenditure reviewed in the sample, the SPMR was still not mentioned in the audit certificates.

60. For International NGOs, UNHCR accepts a "single audit", carried out by the NGO's external auditor. The only requirement is that UNHCR funding be clearly identified in the NGO's consolidated audited financial statements, and that the opinion clearly indicates that UNHCR funds were duly included in the "audit". Since SPMR is not included in the scope of the independent audit, UNHCR receives no assurance from the external auditors of international non-governmental organizations that SPMR figures are accurate. These rules, already deficient, were not even complied with in a significant proportion in that audit certificates covering 33 per cent of the expenditure reviewed by the Board did not clearly state that UNHCR funds were used in accordance with agreements.

61. For Governmental partners, requirements call for a "certificate issued by the appropriate government audit authority, together with such comments as the auditor may deem appropriate in respect of project operations generally and, in particular, the financial situation as reported by the Government". But 95 per cent of the 56 certificates, for an amount of $31.6 million that the Board reviewed, do not mention the SMPR data nor provide any comment, and therefore give no assurance that the UNHCR requirement has been complied with.

62. The overall result of both rules and practice for the three categories of partners is that out of the $123.8 million covered by certificates reviewed by the Board, $106 million lacked SPMR audit (86 per cent). Out of the same $123.8 million, $27.6 million also had no clear certification of compliance with rules for the use of funds. For local NGOs, the Board considers that the gap between the certification rules and their implementation remains at an unacceptably high level of risk while non-compliance with UNHCR rules regarding international NGOs and governmental partners is such that UNHCR has insufficient assurance through audit certificates that funds are properly used.

63. **The Board recommends that UNHCR: (i) mobilise more adequate means to ensure timely and full compliance with existing rules; (ii) assess the feasibility and cost effectiveness of adjusting present audit requirements, such as expanding the local NGOs procedure to International NGOs and Governmental Partners, including independent SPMR audit certification and management letter.**

Auditor selection

64. Regarding the independence and expertise of auditors for governmental projects, UNHCR directives are that the Supreme Audit Institution or the Ministry in charge of Finance should conduct the audit. A tenth of the 2000 UNHCR-related expenditures by Government were audited in accordance with this rule. Over nine-tenths of the audit coverage was entrusted by Governments to private firms or ministries other than the Ministry in charge of Finance. Timeliness is, of course, of the essence. For instance, in one country, the audit of the project implemented by a governmental authority is issued as part of am overall Auditor General Report issued only every two or three years. UNHCR has in this case discussed the possibility of ad-hoc arrangements, but so far without success.

65. Most NGOs choose and pay their own auditors. However, some UNHCR Field Offices directly engage qualified external auditors, after a competitive process, in order to ensure that the audits are conducted in a professional and non-biased manner.

66. **The Board recommends that UNHCR: (i) with the assistance of the Office of Internal Oversight Services, define the requirements for government audits and the resulting audit certificates and provide guidance, as has been done for local non-governmental organizations; (ii) when a public Audit Institution is not available, invite Governments to engage private audit firms selected to perform the audit of government-implemented sub-projects; (iii) include in its guidelines specific procedures and pre-determined criteria to ensure that the local external auditors are of the required independence, integrity and technical competence, and are appropriately monitored when they come from the private sector, and that they are provided with adequate audit terms of reference.**

Audit resources

67. There are no guidelines on audit funding. UNHCR is therefore unable to ensure consistency in the funding and scope of audits, and to monitor the cost-effectiveness of the audit function. Government partners usually provide the audits free of charge, while International NGOs finance the audits directly or through UNHCR funding for overhead costs (for which no detailed breakdown is required). National NGOs charge the cost of the external firm of auditors to the project.

68. **The Board recommends that UNHCR request implementing partners to budget and disclose the resources allocated for certification in all cases and to develop guidelines for an effective monitoring of audit resources.**

Monitoring of deadlines for issuance of audit certificates

69. Completion deadlines were unified in January 2001 for Governmental partners and national NGOs which are now requested to submit audit certificates within six months after the liquidation date of the project. International NGOs are requested to produce their audit certificates within six months at the end of their fiscal year, which may or not be a calendar year. It is therefore later than six months after the liquidation date that the bulk of audit certificates can realistically be expected.

70. However, this is not the case for a majority of the funds. Regarding audit certificates on 2000 expenditure, the overall situation as at 25 March 2002 was as follows: out of the total of expenditure executed in 2000 by NGOs and Governments ($293.2 million), the audit certificates received covered $204.7 million (70 per cent). This means that 15 months after the end of 2000, 30 per cent of the 2000 expenditure was not covered by audit certificates. This low rate is a matter of concern. At the same date, no audit certificate had been submitted for about 23 per cent of the expenditure incurred in 1998 (representing $81 million) and for 17 per cent of the expenditure incurred in 1999 ($70 million).

Table 4. Submission of audit certificates

Year	Expenditure (million US dollars)	Percentage of expenditure covered by audit certificates received by November 30, year +1
1998	339	48
1999	401	43
2000	293	47

71. While acknowledging that in some circumstances audits cannot be performed, the Board notes with concern the lack of improvement over 1998 and recommends that UNHCR enforce deadlines for submission of audit certificates.

Table 5. Results of audit certificates

Fiscal Year 2000	Qualified opinion		Significant finding	
	(million US dollars)	% of expenditure	(million US dollars)	% of expenditure
Governments	0	0	0.2	0.7
National NGOs	0.5	3	5.1	29
International NGOs	1.4	2	20	26
Total	1.9	1.5	25.3	20

72. In the audit certificates covered by the Board's review, significant findings were provided for $25.3 million expenditure (table 5). A qualified opinion was expressed for 1.5 per cent of the expenditure. UNHCR has acted upon this situation in some countries: in one case, the recommendations made by the auditors led to the cancellation of the sub-agreement and to the recovery of funds from one implementing partner. In another case, a plan was prepared to strengthen the capacity of a non-governmental organization to deal with urban refugees and to improve its internal controls; when performance did not improve to the required level, a new implementing partner was selected to replace that non-governmental organization. Other Field Offices did not provide proof of audit follow-up.

73. The Board recommends that UNHCR (i) monitor corrective action taken by Field Offices in case of audit certificates with qualification or major findings and document the follow-up; and (ii) consider the establishment of a comprehensive database on local audit resources history and results to facilitate audit monitoring and risk-assessment.

74. In conclusion, despite valuable progress undertaken in the recent period, the Board is of the opinion that the audit certificates still do not provide sufficient assurance of the proper use of funds.

Control of implementing partner expenditure through OIOS field visits

75. The Board places a high degree of reliance on UNHCR internal audit by the Office of Internal Oversight Services (OIOS). It reviewed OIOS reports on implementing partners completed in 2001. These reports covered 128 implementing partners with expenditure amounting to $170.7 million. OIOS indicates whether a reasonable assurance of proper use of funds entrusted to

implementing partners can be obtained, and whether the implementing partner accounting system and internal controls are satisfactory. Out of $170.7 million, OIOS found that it could not have a reasonable assurance for $53.9 million (31.6 per cent), that the accounting systems were not satisfactory for $52 million (30.5 per cent) and that the internal controls were inadequate for $44.9 million (26.3 per cent). These findings are confirmed by the few field visits implemented by the Board.

76. **The Board notes with grave concern the high level of deficiencies among implementing partners as audited by the Office of Internal Oversight Services.**

2. Cash management

Exchange risk management

77. Since 2000, pledges for contributions made in currencies other than the United States dollar have been recorded at the United Nations exchange rate at the time of recording the pledge. UNHCR runs the risk of obligating pledges at a dollar value, which, due to exchange rate fluctuations, will not fully materialize at the time of payment. Such fluctuations may substantially affect income in so far as UNHCR does not hedge against the related risks. Indeed, loss on exchanges on pledges recorded in the 2001 financial statements amounted to $12.4 million.

78. **The Board recommends that UNHCR manage exchange rate risks by adopting a more pro-active stance, as do other United Nations organizations dealing with similar issues.**

79. As at 31 December 2001, cash and term deposits amounted to $140.5 million deposited in some 30 headquarters and 400 Field Office bank accounts. There were no available written contracts for headquarters bank accounts. UNHCR was therefore unable to provide comparisons between financial institutions in terms of costs or earnings. Since the Board's review, UNHCR has requested all banks handling headquarters accounts to provide a copy of their General Conditions. The Board also noted that all headquarters banks were retained without competitive bidding.

80. **The Board recommends that UNHCR (i) set and regularly update a comprehensive database in respect of bank services, based on written agreements; (ii) launch a competitive bidding for all headquarters bank accounts in order to obtain the best condition and services.**

81. The Board also noted that interest obtained on the 400 Field Office accounts amounted to $120,150 while bank charges for those accounts reached $684,727, which may leave room for more favourable banking conditions. UNHCR indicated that out $684,727 of bank charges, $150,000 was incurred with two banks that are in a monopolistic position.

82. **The Board recommends that UNHCR continue its efforts to streamline and optimize the management of its field office banking operations.**

Bank signatories

83. UNHCR officers act as bank signatories and provide the last internal control before UNHCR cash is disbursed. The list of bank signatories as reviewed by the Board at year-end of 2001 disclosed that rules were not always complied with. While two professionals (or, when circumstances so warrant, at least one professional), or higher staff are required by UNHCR financial rule 5.11, one General Service staff member can be one of the two bank signatories for all headquarters accounts. In 10 Field locations, General Service staff member were acting as single signatories. For 21 bank accounts, signatories were no longer UNHCR staff members and sometimes could act alone.

84. **The Board recommends that UNHCR ensure that all bank signatories are UNHCR staff, designated in compliance with its rules.**

3. UNHCR information systems

85. As stated in the previous Board report (A/56/5/Add.5), in 1998 UNHCR launched the Integrated System Project (ISP) to provide the Organization with an "Enterprise Resource Planning" (ERP), integrated management tool. In 1999, it purchased a commercial software package. A supplier was selected for implementing the project on the basis of a cost proposal of $17.9 million to cover all external costs for the change-over, to be completed by 2002. The entire project implementation was to be spread over 15 quarters at a global cost of $34 million, including internal costs. In June 2001, the new leadership of UNHCR put the ISP project on hold, considering, rightfully, that it failed to comply with best practices for project management (such as for project lifecycle, requirements, plan, budgeting costs, monitoring costs against targets and deliverables), as highlighted by the Board in its last report. As a result, the current UNHCR information system continues to be used until the ISP project is restarted or another solution rolled out. In this context, the Board assessed the risks of the current Financial and Management Information System (FMIS) and reviewed the status of the Integrated System Project together with the financial impact of the decision to put the project on hold.

86. Since the Board's review in January 2002, measures have been taken by UNHCR with a view to addressing urgent preliminary issues. An Information Resource Council has been established, and so has a line of command for the FMIS system.

The Financial Management Information System (FMIS)

87. FMIS is not an integrated system. Each application is "isolated" and data can only be exchanged via interfaces. This configuration and the excessive number of applications expose UNHCR to a considerable risk of errors, notably with regard to the transmission of data. Furthermore, while the system is based on a technology first rolled out in the 1980s, FMIS has not been upgraded in line with the same generation (better interfaces, compatibility with recent operating systems, etc.) and the gap between FMIS and its users' functional requirements is widening. Despite the limited progress made with the ISP project, the FMIS system has not been upgraded and enhanced.

88. The Board recommends that, with a view to maintaining state-of-the-art reliability and improving the cost-efficiency of its financial and accounting management, UNHCR address the current functionality deficiencies and define a clear development strategy needs for FMIS, factoring in (a) the technological delays that have built up with FMIS developments over the last few years, (b) the decisions that will be taken to restart the ISP or a similar project and its provisional roll-out date. The Board further recommends that as long as FMIS produces UNHCR accounts a risk estimation procedure be implemented to provide the management with the indicators required to take decisions effectively.

89. UNHCR does not have the staff needed to maintain the quality of service required for its applications. A knowledge transfer and training process is underway in light of forthcoming retirements, but expert knowledge of the tools and functionality is still restricted to too few people. Furthermore, the concentration of knowledge heightens the risk of one or more members of the team becoming indispensable and the organization having no backup solution. UNHCR, while recognizing that a separation of development, maintenance, support and production functions is a valid approach in addressing many software system shortfalls, considers the issue of data reliability to be a technical issue and not a structural one.

90. The Board recommends that UNHCR (i) allocate the human and budgetary resources required to maintain the current system; and (ii) separate the support, maintenance, development and production tracking functions to ensure that the reliability of accounting and financial data.

The Integrated System Project (ISP)

91. Management tasked a working group to draw up an effective strategic plan (Corporate Operating Model) redefining the project goals and objectives. However, no work was undertaken in 2001. After the Board review, UNHCR issued in April 2002 a report on "Readiness assessment and immediate action plan for ERP implementation in the Finance and Supply Chain Divisions". As at 8 May 2002, a final decision regarding the restart of ISP has not been taken.

92. The cost of the project, as estimated in the Project Charter released by the selected supplier in March 2001, has increased from $34 million to over $42 million, due to external costs increasing from $17.9 million to $27 million.

93. At the end of 2001, ISP expenditure amounted to $12.9 million - 38 per cent of the initial budget - with no operational result. The costs resulting from the suspension of the project in June 2001 have been estimated by the Board at about one tenth of this amount. The main items of expenditure between June and December 2001 are presented below:

(a) The hardware and software purchased for the ISP project are not being used. Although UNHCR does not depreciate its assets, such investments would generally be amortized over five years (linear), representing the average lifetime of investments. The longer it takes the project to restart, the shorter is the remaining useful life of the assets. It is not even certain that the hardware will still be suitable for future use;

(b) Maintenance costs continue to accrue each month despite the fact that the project has been put on hold. They represent a significant percentage of the project's recurrent costs. Hardware and software maintenance are billed at the same rate as if the tool was operational. Contrary to best practices, scaled-down maintenance services were not negotiated at the integration stage for the time to elapse until final project delivery. The cost of the freeze for maintenance over the last six months may be estimated at around 50 per cent of the annual bill, i.e. at $160,770;

(c) A total of 412 training modules were initially purchased from the software supplier in June 1999, and had been utilized at the beginning of 2001. A further 150 units were purchased in March 2001. Approximately 50 of these 150 training units have been used to date. As stipulated in the contract, the remaining units should have been used before 28 February 2002. As they were not, the related losses amounted to $43,400. Some trainees have left the project; their departures represent a loss in terms of know-how. Since the first training courses held in 1999, trainees have probably lost most of the knowledge acquired, as they have not used the software. If the project resumes, a number of courses already provided will have to be repeated.

94. The Board recommends that UNHCR should negotiate a discount on hardware and maintenance services until the project has resumed; and update the inventory of the skills acquired through the training courses, in order to optimize in due time any resumption of such trainings.

95. If and when the project is restarted, new costs will have to be budgeted, or losses accounted for, ranging from some tens of thousands of dollar up to several millions if the current solution is dismissed and another package and supplier for implementation is selected. These potential losses and costs are to be compared to the $42 million quoted above, which were the updated ISP estimate as provided by the supplier before the project was put on hold.

96. The United Nations Secretariat has developed its IMIS at a cost of over $80 million over the past decade, with a view to answering the needs of most United Nations entities; among several such other recent developments, another United Nations agency has simultaneously prepared, in 2002, a new plan to spend some $100 million on a similar system.

97. As already noted by the Board in its previous report, UNHCR had initially looked into the possibility of using IMIS. Following an analysis of its functional requirements and a gap analysis, UNHCR discounted this possibility as it estimated that IMIS would require too many management developments to bring it into line with its specific needs. The question remains open, in hindsight, on whether the failure to provide a timely solution, and the travails before implementing one, have not been much more expensive than opting for IMIS.

98. Regarding intra-United Nations ICT coherence, the distinction is made by UNHCR between an "ICT approach" - the information and communication technology management strategy - and an "ERP approach", the narrower enterprise resources planning, "business support" solution. In terms of ICT approach, UNHCR is in contact with the rest of the United Nations system

through inter-agency groups and the International Computing Centre. In terms of ERP approach, progress at other agencies is being followed by UNHCR with FAO, ICAO, IFAD, ILO, ITU, IMF, UNDCP, UNESCO, UNICEF, UNDP, UPU, WHO, WFP, WIPO, The World Bank, WMO, WTO - a number of which are known to consider or develop their own ERP solutions.

99. **The Board expresses grave concern and reservations about this concurrence of a number of very costly Information and Communication Technology systems within the same United Nations system, at the expense of the same stakeholders, the Member States, covering the same geographical areas, under similar rules and regulations, toward the same global ends.**

100. **The Board recommends that UNHCR: (i) consult with the United Nations Secretariat and other relevant United Nations entities to ensure that in terms of cost-benefit the present diversity of information systems approaches is in the best interest of Member States and of the beneficiaries of United Nations programmes; (ii) ascertain that there are no ready-made solutions, even at the cost of alterations in current UNHCR procedures, preferably within the United Nations system.**

4. Cases of fraud and presumptive fraud

101. UNHCR has reported no case of fraud in 2001. The findings of the investigation mentioned in paragraph 109 of the Board's report for 2000 have been reported to the General Assembly on 21 December 2001 (A/56/773).

D. Acknowledgement

102. The Board wishes to express its appreciation for the cooperation and assistance extended to the auditors by the High Commissioner and his staff.

(Signed) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(Signed) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(Signed) François **Logerot**
First President of the Court of Accounts of France

27 June 2002

ANNEX

Follow-up on action taken to the recommendations of the Board of Auditors in its report for the year ended 31 December 2000

1. The Board has followed-up on the actions taken by UNHCR to implement the Board's recommendations made in the context of its report for the year ended 31 December 2000. Table A summarizes the status of implementation of all the previous recommendations while Table B details specifically those recommendations not implemented, and those recommendations under implementation which require further comment.

2. A total of 13 recommendations were made in the audit of the year 2000. Of the 13 recommendations, 6 (46 per cent) were implemented, 7 (54 per cent) were under implementation.

Table A. Summary of status of implementation of recommendations for the year ended 31 December 2000

Topic	Implemented	Under Implementation	Not Implemented	Total
COMPONENT A Financial Issues				
Programme management		Para. 11 (a)		
Accts and financ. reporting	Para. 53	Para. 11 (b)		
Sub - Total no.	1	2	0	3
Sub - Total %	33.3%	66.7%	0%	100%
COMPONENT B Management Issues				
ICT	Para. 70, 87, 90	Para. 11 (c) Para. 11 (d)		
Programme management	Para. 105 Para. 107	Para. 11 (e) Para. 11 (f) Para. 11 (g)		
Sub - Total no.	5	5	0	10
Sub - Total %	50%	50%	0%	100%
TOTAL - No.	6	7	0	13
TOTAL %	46%	54%	0%	100%

Table B. Details on previous recommendations under implementation or not implemented for the year ended 31 December 2000

Management			
Component/ Area of concern	Recommendation	As at *30 April 2002* Specific management action/comments	Comments of the Board
(A)	(B)	(C)	(D)
Project financial oversight Ref.: Para. 30	Strengthen its oversight of field offices to ensure that they undertake a thorough verification of sub-project monitoring reports, including the verification of supporting documentation and bank statements	In December 2001, UNHCR issued revised instructions and guidance on Sub-Project Monitoring Reports (SPMR). The comprehensive revision of section 6.5 of chapter 4 of the UNHCR Manual formed part of the on going update of the Manual and was sent to all UNHCR offices. This revision provided more extensive procedural guidance for field offices on how to process, verify and accept SPMRs. The notion of formal annual monitoring and reporting plan with implementing partners was introduced in order to ensure a systematic monitoring, including expenditure verification. The revision also emphasizes the importance of verification and acceptance of SPMRs and defines (…). In parallel, the financial part of the SPMR format has been amended to incorporate additional fields whereby partners are to disclose separately any income received (e.g. interest earned). The new format also includes additional lines that provide more extensive explanations on the certification by the implementing partner and the extent of the verification made by UNHCR (completeness, compliance and accuracy with the sub-agreement).	Under implementation The Board, in view of continuing problems in the verification of sub-project monitoring reports as indicated in the present report, welcomes the recent improvements in strengthening controls carried out by field offices. It notes that the revised instructions issued in December 2001 by UNHCR are a step towards a strengthened verification of the financial data submitted by the implementing partners.

Management			
Component/ Area of concern	Recommendation	As at *30 April 2002* Specific management action/comments	Comments of the Board
(A)	(B)	(C)	(D)
Audit certificates Ref.: Para. 38	Ensure that field offices review audit certificates received in respect of projects and follow up any significant issues that arise.	As previously mentioned to the Board of Auditors, UNHCR has already implemented this recommendation. The revised UNHCR Manual, chapter 4, section 5.1 and appendix 8(c), contains guidelines to field offices for the review of audit certificates in respect of projects implemented by implementing partners. (…) UNHCR, through its Internal Audit Service, is developing a database of its major partners implementing projects with an aggregate value amounting to over $ 1 million.	Under implementation The Board, in view of its continuing comments on audit certificates in the present report, welcomes the recent developments.
ICT: ISP project Ref.: Para. 64	Establish for the Integrated Systems Project clearly defined, ranked benefits that are quantified as far as possible, in order to establish realistic milestones against which progress can be monitored.	Following suspension of the ISP in June 2001, work was undertaken to define the framework for a Corporate Operating Model. (…) One of the initial tasks will be to clearly define the integration points between the priority areas (Finance and Supply Chain) and the rest of the house (Operations and Human Resources). This work will form the basis for the Corporate Operating Model, the remaining components of which will be addressed at a future point. (…) Before a decision is taken to restart the project, benefits will be re-examined in the light of the (initial) reduced scope and will take into consideration the integration between Finance, Supply Chain, Human Resources and Operations.	Under implementation The Board notes in the present report that several months elapsed before any action was taken after its previous report, and that the existing financial information system is not properly maintained.

Management			
Component/ Area of concern	Recommendation	As at *30 April 2002* Specific management action/comments	Comments of the Board
(A)	(B)	(C)	(D)
ICT project Ref.: Para. 81	Establish and maintain a single line of project management through which staff report on all aspects of the Integrated System Project.	UNHCR already acknowledged that the frequent changes in the project governance structure have been a major problem. Once the project resumes, the position of the Project Manager will be re-advertised and all Project staff will report to this Manager (…).	Under implementation The Board welcomes the intentions of UNHCR.
Appropriateness of assistance projects Ref.: Para. 97	Review the appropriateness of engaging in projects which are not of direct assistance to refugees, and routinely set clear milestones against which to measure progress and assess when its mission was complete	(…) the High Commissioner (…) is presently inclined to move away from the concept of Special Operations. In doing so, he has taken into account the position of some key donors, and the comments of the ACABQ in its report (A/AC.96/950/Add. 1). Based upon a 2002 review, decision will be taken on whether the procedures suggested for the 2003 Programme Review need adjustment/correction before standardisation and inclusion in chapter IV and in specific instructions (…). last action planned by UNHCR in response to this recommendation - the incorporation of guidance on setting milestones into the Guide for the Use of Work plans - is developed below in the update on the same proposed course of action, under the response to recommendation 8 (a).	Under implementation

Management			
Component/ Area of concern	Recommendation	As at *30 April 2002* Specific management action/comments	Comments of the Board
(A)	(B)	(C)	(D)
Statistics on refugees Ref.: Para. 100	Establish a suitable system to ensure that accurate information is maintained on the size and characteristics of the refugee population	In line with the interim focus on the non-IT components and initiatives of PROFILE, support continued to be provided, both by Headquarters and by field-based regional support-staff, to a significant number of ongoing registration operations in the field (…) Management decided in February 2002 that (…) a business case should be prepared in order to set the rationale for any decision on IT systems development more clearly in the context of the strengthened registration and population data management policies and practices (…) A business case for PROFILE is (…) is expected to be considered by Senior Management in mid-May 2002.	Under implementation The Board notes the forthcoming developments.
Project objective and indications Ref.: Para. 103	Include clearly stated and quantified objectives and outputs in sub-projects agreements and produce work plans incorporating key milestones and target dates.	The (...) "Project Planning in UNHCR: A practical guide on the use of objectives, outputs, and indicators" has been sent to the Field during March 2002, and Field Offices are sharing the guide with Implementing Partners. (…).	Under implementation The Board welcomes the guide and will monitor developments.

Chapter II

AUDIT OPINION

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 to 5, and the supporting notes to the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period from 1 January to 31 December 2001. These financial statements are the responsibility of the High Commissioner. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the High Commissioner, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position at 31 December 2001 and the results of operations and cash flows for the period then ended in accordance with the United Nations High Commissioner for Refugees' stated accounting policies, set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Without qualifying our opinion above, we draw attention to our findings on implementing partner expenditure. Although we noted significant improvements, we were concerned about the effectiveness of internal controls and procedures as well as the adequacy of assurance obtained by UNHCR that funds had been properly used for the purpose intended.

Further, in our opinion, the transactions of the United Nations High Commissioner for Refugees that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long- form report on our audit of the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees.

(Signed) Shauket A. Fakie
Auditor-General of the Republic of South Africa

(Signed) Guillermo N. Carague
Chairman, Philippine Commission on Audit

(Signed) François Logerot
First President of the Court of Accounts of France

27 June 2002

CHAPTER III

STATEMENT OF THE HIGH COMMISSIONER'S RESPONSIBILITIES AND APPROVAL OF THE FINANCIAL STATEMENTS

The United Nations High Commissioner for Refugees is ultimately responsible for the content and integrity of the financial statements contained in the Accounts of the Voluntary Funds Administered by the United Nations High Commissioner for Refugees which are submitted to the Executive Committee of the High Commissioner's Programme and to the General Assembly of the United Nations.

To fulfil its responsibility, UNHCR operates within prescribed accounting policies and standards and maintains systems of internal accounting controls and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the United Nations Board of Auditors, during their respective audits.

In this context, the following appended financial statements, comprising Statements I to III, Schedules 1 to 5, Annexes I to II, Appendix I and Supporting Notes, were prepared in accordance with UNHCR Financial Rules (A/AC.96/503/Rev.7) and the United Nations Common Accounting Standards. In Management's opinion, the accompanying financial statements present fairly the financial position of the Office as of 31 December 2001, and the results of its operations and its cash flows of individual Programmes, Funds and Accounts for the year then ended.

The Accounts are hereby

Approved
(Signed) Ruud Lubbers
United Nations High
Commissioner for Refugees

Certified
(Signed) Wolfgang Milzow
Controller & Director, a.i.
Division of Resource Management

Geneva, Switzerland
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CHAPTER IV

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001
NOTES TO THE FINANCIAL STATEMENTS

(see document A/AC.96/962, Voluntary Funds Administered by the United Nations High Commissioner for Refugees - Accounts for the year 2001).

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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 2001

Addendum 1 - Measures taken or proposed in response to the recommendations in the Report of the Board of Auditors to the General Assembly on the Accounts of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2001

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I. INTRODUCTION

1. In accordance with paragraph 10 of General Assembly resolution 47/211 of 23 December 1992, the following is a report on measures taken or to be taken by UNHCR in response to the main recommendations of the Board of Auditors, as set out in paragraph 13 of their Report (A/AC.96/963). Unless otherwise indicated, all references appearing below relate to the aforementioned Report. This document also deals with previous recommendations not fully implemented, as detailed in paragraph 10 of the Report as well as the other recommendations mentioned in its paragraph 14.

United Nations System Accounting standards

II. RECOMMENDATION 13 (a)

2. Modify its accounting policy and financial system on expenditure in order to comply with United Nations System Accounting Standards through an accurate accounting of disbursements and valid unliquidated obligations (para. 38);

Measures Taken by the Administration

3. UNHCR notes and agrees with the recommendation. UNHCR further informs the Board of Auditors that, with the implementation of the Management Systems Renewal Project (MSRP) planned for 2003/2004, the appropriate expenditure recognition policy and recording practices will be set, in accordance with United Nations System Accounting Standards.

Implementing partner expenditure

III. RECOMMENDATION 13 (b)

4. Assess the feasibility and cost-effectiveness of modifying the rules on the control of implementing partners expenditure, with a view to obtaining audit certificates covering the financial reports submitted by the international NGOs and Governmental partners; monitor corrective action taken by Field Offices in case of audit certificates with qualification or major findings and document the follow-up; consider the establishment of a comprehensive database on local audit resources history and results to facilitate audit monitoring and risk-assessment (para. 63 and 73);

Measures Taken by the Administration

5. The auditors' recommendation has been duly noted. Since 1997, UNHCR and its partners have invested considerable financial and human resources in order to produce on time the required audit certificates, and marked progress has already been achieved. Nevertheless, UNHCR continues its efforts to obtain the audit certificates as early as possible after the final date for liquidation of obligations. UNHCR is currently, with the assistance of the UNHCR Audit Service and the Office of Internal Oversight Services (OIOS), analyzing the feasibility and cost-effectiveness of requesting independent Sub-project Monitoring Report (SPMR) certification and management letters for international NGOs and governmental partners. In addition, UNHCR with the assistance of OIOS is also reviewing the current procedures on the monitoring

of audit certificates received from implementing partners, and is analyzing the possibility of creating a comprehensive database on local audit resources history and results. During the first quarter of 2003 a proposal on the changes of the policy relating to Audit certificates of implementing partners will be presented to UNHCR's senior management.

Cash management

IV. RECOMMENDATION 13 (c)

6. Manage exchange rate risks by adopting a more proactive, hedging stance (para. 78);

Measures Taken by the Administration

7. UNHCR is consulting other United Nations agencies on their experience with hedging exchange risks, particularly in cases when the dates of future transactions are not determined. In parallel, UNHCR is seeking specialist advice from banks.

V. RECOMMENDATION 13 (d)

8. Set and regularly update a comprehensive database in respect of bank services, based on written agreements, and launch a competitive bidding for all headquarters bank accounts in order to obtain the best condition and services (para. 80);

Measures Taken by the Administration

9. UNHCR has completed a review of the contractual services provided for all headquarters bank accounts, including an update of applicable general terms and conditions of banks. UNHCR has launched a competitive bidding for headquarters bank accounts in the European Monetary Union.

Information systems

VI. RECOMMENDATION 13 (e)

10. Address the current functionality deficiencies and define a clear development strategy needs for its Financial Management Information System (FMIS), factoring in the technological delays that have built up with FMIS developments over the last few years, and the decisions that will be taken to restart the ISP or a similar project and its provisional roll-out date. The Board further recommends that, as long as FMIS produces the accounts, a risk estimation procedure be implemented (para. 88);

Measures Taken by the Administration

11. UNHCR takes note of the recommendation. It should be noted that the FMIS Stakeholders met a number of times during 2001 and the first semester of 2002 to discuss the functionality, risk and shortcomings of the FMIS system. Between May and June 2002, various scenarios, costs and benefits were reviewed in relation to the time-frame for the intended restart of the ISP. As a result, an upgrade of the FMIS field system to current technological

standards and requirements of the Windows environment is envisaged. This upgrade will stabilize the system and lead to better data integrity especially in the field. The FMIS team is now in the process of finalising the software modifications and a pilot is planned for September 2002. Further steps will be considered in the context of the implementation of the MSRP (Management Systems Renewal Project), as decided in July 2002, and taking into account the availability of resources.

VII. RECOMMENDATION 13 (f)

12. Consult with the United Nations Secretariat and other relevant United Nations entities to ensure that in terms of cost-benefit the present diversity of information systems approaches is in the best interest of Member States and of the beneficiaries of United Nations programmes; ascertain that there are no ready-made solutions, even at the cost of alterations in current UNHCR procedures, preferably within the United Nations system (para. 100).

Measures Taken by the Administration

13. The recommendation has been duly noted. Having undergone an extensive software evaluation and procurement process, UNHCR stands behind the choice of PeopleSoft as the Enterprise Resource Planning (ERP) package that best fits the needs of the organization. UNHCR is in discussion with both UNDP and IFAD, both of whom are PeopleSoft clients, to determine areas in which inter-agency collaborative efforts are feasible.

Previous recommendations not fully implemented

VIII. RECOMMENDATION 10 (a)

14. Make the preparation of work plans an integral part of the project-planning and monitoring process (1995, 1996, 1998 and 1999);

Measures Taken by the Administration

15. As mentioned by the Auditors, the production of a guide for use of workplans when preparing projects and sub-projects has not been finalized within the initially foreseen time-frame, due to operational and staffing constraints. However, UNHCR has prepared a first draft of a mini-guide on the use of workplans. The draft makes reference to the instructions in Chapter IV regarding the use of workplans, and to the *Practical UNHCR Guide on Objective-setting*, which includes the setting of milestones, objectives, outputs and indicators. It also sets out when the use of a workplan is required, and is therefore consistent with the current content of Chapter IV. It is anticipated that, by autumn 2002, a final draft of the mini-guide will be ready for issuance.

IX. RECOMMENDATION 10 (b)

16. Ensure complete and accurate disclosure of non-expendable property and conduct physical stock checks on a regular basis (1996, 1997, 1998 and 1999).

Measures Taken by the Administration

17. UNHCR takes note of the recommendation. It should be noted that responsibility for the Asset Management function was moved to the Supplies and Transport Section in April 2001 for integration within the supply chain concept adopted by UNHCR. UNHCR strengthened the function at Headquarters with the creation of a P4 post of Head of Asset Management Unit, which was filled in October 2001. A comprehensive plan of action has been elaborated. This includes: revisions to the authority and procedures for Asset Management Boards; initiation of an internal asset market through a newly designed Web browser; enhancements to the AssetTrak database to support the revisions; and production and promulgation of procedures as part of the Supply Chain project. In addition, many supporting documents and systems are to be revised and clarified with the aim of improving results prior to the end of 2002.

Other Recommendations

X. RECOMMENDATION Para 17

18. The Board recommends that (i) should the General Assembly wish to pursue the matter, it should request UNHCR to perform a detailed review and cost-estimate of the modifications implied by a biennial cycle; (ii) UNHCR should, regardless of the outcome, examine the cost of taking into account in its new information system the possibility of biennial cycles.

Measures Taken by the Administration

19. UNHCR is currently examining the implications of biennium cycles regarding planning, funding and budget. The possibility of biennial cycles will also be taken into account in the new Management Systems Renewal Project information system (MSRP)planned for 2003/2004.

XI. RECOMMENDATION Para 21

20. The Board recommends that: (i) UNHCR formally state the scope of "administrative expenditure"; (ii) the UNHCR statute be eventually amended should the planned phased increases from the United Nations Regular budget not be sufficient to fund UNHCR administrative expenditure.

Measures Taken by the Administration

21. By way of clarification, it should be noted that the current UN Regular Budget contribution was increased by 5.1 per cent ($ 2 million) for the biennium 2002-2003, "with subsequent increases to be considered in the context of proposals for subsequent bienniums" (A/56/6 (Sect 23), paragraph 23.19). It will be recalled that UNHCR now has three categories of posts, namely management and administration (MA), programme support (PS) and programme posts (P). Management and administration posts are found only at headquarters; programme support posts at both headquarters and in the field; and programme posts only in the field. In the 2003 proposed UNHCR budget, management and administration costs amount to $ 58.1 million. As document A/56/6(Sect 23), paragraph 23.19 stated: "The management and administration

category was found to be consistent with the type of posts (non-operational) now funded by the regular budget." UNHCR's objective is to move to the full funding of this category of posts under the United Nations Regular Budget.

22. As regards the proposed review of the Statute, it will be recalled that recently a *Declaration of States Parties to the 1951 Convention and/or its 1967 Protocol relating to the Status of Refugees* was organized jointly by Switzerland and UNHCR to commemorate the Convention's 50th anniversary. In an environment where the Convention has come under increasing attack, this Declaration is a major step forward in that it has reaffirmed the commitment of States to the Convention and to its proper and full application. Given the intimate link between the Convention and the Statute in the definition of a refugee and the competence of the High Commissioner, it is not felt, at this time, that the Statute should be revisited to look merely at the financing of the administrative expenses of the Office.

XII. RECOMMENDATION Para 29

23. The Board recommended, and UNHCR agreed, to adopt a consistent policy with regard to the number of staff members to be taken into account for calculation of termination liabilities.

Measures Taken by the Administration

24. UNHCR confirms that it will exclusively use the latest available official staffing figures from its database to determine the number of staff for calculation of termination liabilities.

XIII. RECOMMENDATION Para 31

25. The Board recommends that UNHCR, in conjunction with United Nations Headquarters, review the funding mechanism and targets for end-of-service liabilities in line with other United Nations organizations.

Measures Taken by the Administration

26. Following a request of the ACABQ the UN Secretariat is preparing a report on the long-term implications and impact of the growth in the liability of the organization for after-health insurance benefits that will be submitted to the General Assembly at its fifty-seventh session.

XIV. RECOMMENDATION Para 41

27. The Board recommends that, whenever a party is held responsible for losses of cash, receivable and property and asked to refund the Organization, UNHCR promptly record the related amounts on an accrual basis to improve control and accountability.

Measures Taken by the Administration

28. The recommendation has already been implemented. In June 2002, instructions were sent to all Heads of Field Offices, to record miscellaneous receivables and the corresponding miscellaneous income upon receipt of Asset Management Board decisions regarding cases where staff members or

Implementing Partners are held responsible for the impairment/loss of assets and are asked to refund the organization. In addition, the same instructions are being included in the forthcoming IOM/FOM on Asset Management Boards, now being finalized by the Asset Management Unit/Supply Management Section. Specifically, Case Report and Recommendation forms containing decisions on such cases will indicate the accounting entries that should be made in this respect.

XV. RECOMMENDATION Para 53

29. The Board recommends that UNHCR verify without further delays the expenditure reported by the Governmental partners.

Measures Taken by the Administration

30. Further to discussions held between UNHCR and the governmental partner, the latter agreed to open its accounts for review. Verification of expenditures reported by the governmental partners should be completed before the end of the year.

XVI. RECOMMENDATION Para 56

31. The Board encourages UNHCR to continue its efforts in verifying SPMRs effectively.

Measures Taken by the Administration

32. UNHCR takes note of the recommendation. As mentioned by the Board UNHCR has, in April 2002, amended the financial part of the Sub-project Monitoring Report (SPMR) format to incorporate additional fields whereby partners are to disclose separately any income received (e.g. interest earned). The new format also includes additional lines that provide more extensive explanations on the certification by the implementing partner and the extent of the verification made by UNHCR (completeness, compliance and accuracy with the sub-agreement). In addition, the new guidance for the verification and acceptance of SPMRs, which was issued in December 2001, will show its impact in the course of 2002, and is expected to result in more effective financial monitoring.

XVII. RECOMMENDATION Para 66

33. The Board recommends that UNHCR: (i) with the assistance of the Office of Internal Oversight Services, define the requirements for government audits and the resulting audit certificates and provide guidance, as has been done for local non-governmental organizations; (ii) when a public Audit Institution is not available, invite Governments to engage private audit firms selected to perform the audit of government-implemented sub-projects; (iii) include in its guidelines specific procedures and pre-determined criteria to ensure that the local external auditors are of the required independence, integrity and technical competence, and are appropriately monitored when they come from the private sector, and that they are provided with adequate audit terms of reference.

Measures Taken by the Administration

34. UNHCR, with the assistance of the Office of Internal Oversight Services, is currently reviewing and analysing the whole process of audit certificates for implementing partners as mentioned in the reply to recommendation 13 (b). It is planned to propose a revised policy to senior management during the first quarter of 2003. However, it should be noted that, in the case of some governmental partners, the audit of governmental accounts is not carried out systematically on a yearly basis. Indeed, many countries have a policy of auditing their institutions every two years and on a random basis, and therefore UNHCR projects may not be included in the general government audit, but require a separate project audit by the government institution. This audit will normally have lower priority than the mandatory audit of the State's accounts. Furthermore, since the government audit institution is not remunerated by UNHCR for providing audit certificates, possibilities for changing priorities or speeding up the audit process are very limited.

35. UNHCR is considering the option of including in the sub-agreement a provision, allowing that a private sector audit firm contracted by UNHCR in consultation with the government may audit the government-implemented project, when a governmental audit institution cannot undertake the work, in order to guarantee the independence and timeliness of the audit. UNHCR is reviewing potential cost implications and governments' acceptance of audits performed by private sector audit firms. UNHCR has already established guidelines for hiring the services of local external auditors (UNHCR Manual, Chapter 4, Annex 8.8). With the assistance of the Office of Internal Oversight Services, UNHCR will review and amend these guidelines, as required, for the audit of government-implemented projects.

XVIII. RECOMMENDATION Para 68

36. The Board recommends that UNHCR request implementing partners to budget and disclose the resources allocated for certification in all cases and to develop guidelines for an effective monitoring of audit resources.

Measures Taken by the Administration

37. UNHCR takes note of the recommendation. As previously mentioned in the reply to recommendation 13 (b) and 66, UNHCR, with the assistance of the Office of Internal Oversight Services, is currently reviewing and analysing the whole process of audit certificates for implementing partners. The proposed revised policy relating to audit certificates of implementing partners, which will be presented to senior management during the first quarter of 2003, will also consider the various aspects of an effective monitoring of audit resources.

XIX. RECOMMENDATION Para 71

38. While acknowledging that in some circumstances audits cannot be performed, the Board notes with concern the lack of improvement over 1998 and recommends that UNHCR enforce deadlines for submission of audit certificates.

Measures Taken by the Administration

39. The recommendation has been duly noted. As already mentioned in the replies to recommendation 13 (b) and 66, UNHCR, with the assistance of the Office of Internal Oversight Services, is reviewing and analyzing the current procedures related to audit certificates from implementing partners. It is hoped that the proposed changes will improve the submission of audit certificates received from implementing partners both in terms of time and quality.

40. While UNHCR agrees with the Board that there is a need to enforce deadlines for submission of audit certificates, the current level of compliance of audit certificates received by implementing partners is as follows:

1998	⇒ 79% of which	64%	Government Implementing Partners
		93%	International NGOs
		65%	Local NGOs
1999	⇒ 84% of which	74%	Government Implementing Partners
		95%	International NGOs
		66%	Local NGOs
2000	⇒ 74% of which	74%	Government Implementing Partners
		87%	International NGOs
		52%	Local NGOs

XX. RECOMMENDATION Para 82

41. The Board recommends that UNHCR continue its efforts to streamline and optimize the management of its field office banking operations.

Measures Taken by the Administration

42. UNHCR is reviewing all banking operations in the field with significant bank charges and without corresponding interest income.

XXI. RECOMMENDATION Para 84

43. The Board recommends that UNHCR ensure that all bank signatories are UNHCR staff, designated in compliance with its rules.

Measures Taken by the Administration

44. UNHCR has reviewed and updated the lists of bank signatories.

XXII. RECOMMENDATION Para 90

45. The Board recommends that UNHCR (i) allocate the human and budgetary resources required to maintain the current system; and (ii) separate the support, maintenance, development and production tracking functions to ensure that the reliability of accounting and financial data.

Measures Taken by the Administration

46. UNHCR recognises the importance of separating support and development functions. However, it is felt that due to current budgetary restrictions as well as the upcoming systems replacement, UNHCR should dedicate its scarce resources to ensuring timely implementation of the new systems, rather than investing additional resources in maintaining legacy systems. UNHCR will address the separation of development and support functions as part of the structure that will be put into place both during the implementation of the new systems and in the post-implementation phase.

XXIII. RECOMMENDATION Para 94

47. The Board recommends that UNHCR should negotiate a discount on hardware and maintenance services until the project has resumed; and update the inventory of the skills acquired through the training courses, in order to optimize in due time any resumption of such trainings.

Measures Taken by the Administration

48. Since February 2002, senior management commissioned three initiatives to address areas of concern that occasioned the suspension of the ISP in June 2001. After reviewing the results of the three studies, and carefully weighing up the potential cost and the risks of alternative solutions, senior management made a decision in July 2002 to continue the project. With the project re-starting, the hardware and software purchased in previous phases of the project that are still under maintenance, are now being utilized. The inventory of skills for staff members still on the project will be updated accordingly. As part of the project plan, a training strategy for new project team members will be developed.